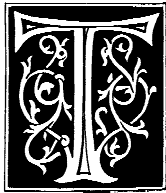
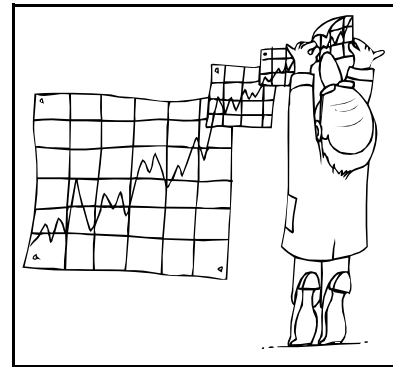


FINANCIAL MANAGEMENT

Documentation for the Course



THE FINANCIAL MANAGEMENT COURSE is intended for those planning careers in areas not requiring a sophisticated knowledge of finance but who wish further exposure to operating finance from the general manager's perspective. "Fun with Finance" will therefore touch briefly on topics of importance to those planning to work in marketing, operations, general management, smaller enterprises, and new ventures.



ENTREPRENEUR'S PERSPECTIVE

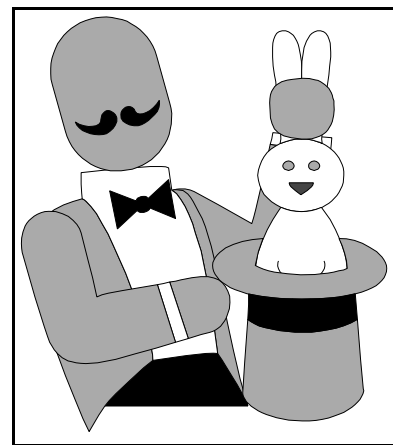
The purpose of the course is not to introduce new topics or conceptual frameworks. It endeavors to provide opportunities to develop insight in the practicalities of operating finance. Although you will have many opportunities for numerical analysis in addressing the issues in the cases, you will not be given an Official Spreadsheet or a list of Approved Techniques whose mastery will be tested with problem sets. *Anyone taking this course expecting to receive a package of all-purpose analytical tools will be disappointed.* The course is not intended as an opportunity merely to use mechanics introduced in First-Year Finance on similar problems. In fact, rather than spending the course developing templates, the thrust of the numerical analysis in Financial Management will be to use whatever approach gets the relevant analysis completed efficiently given the information available. This requires effort to identify the nature of the problem *before* launching into the numbers but results in more efficient use of time. (See the Analytical Approach section that follows.)

A second purpose of the course is to enhance development of a sense of "statement logic." The nature of a company's business and where it is on the "growth curve" are major determinants of its financial requirements and financial structure. It does not take much information about a company to know what its financial position should be. A mismatch between a company's activities, its statement logic, and its financial structure suggests a potentially dangerous situation.

Although most of the discussion material uses smaller businesses as subject matter, the course is not intended as a small-business finance course. The financial problems of smaller businesses are easier to understand than those of large, diversified

companies. In addition, most of the cases are set in manufacturing firms despite manufacturing's becoming a smaller part of the Gross National Product. The reason is that manufacturing businesses have the full array of assets and liabilities to study. Retailers, for instance, have no work-in-process inventory. Asset-light service businesses should have very little investment in assets except accounts receivable. They should have little debt—it is a red flag of trouble if a service business such as a law firm needs external financing. Asset-heavy service businesses, such as public utilities, transportation companies, and hospitals, face the same financial issues as manufacturing companies with the exception of inventories (except for a small quantity of supplies). (Note the application of “statement logic” in this paragraph.)

Cross-registration is typically not permitted between this course and the Valuation course in either the first- or second-year versions. (Students who found first-year Valuation “challenging” may apply to the instructor to take Financial Management also for credit.) Because Valuation is a prerequisite for many other finance courses, enrollment in Financial Management typically precludes you from many courses in corporate finance and investment analysis and management, although individual instructors may consider waiving the prerequisite for qualified students.



VALUATION

The Financial Management course consists of fifteen case discussions and a final examination (probably four-hour take-home). No speakers are planned, but there may be occasional guests. Problem sets and papers will not be required. The grade will be equally weighted between class participation and the final examination. All grades from DP to F will be available for use as appropriate, subject to the mandated limits at the upper end.

Topics Covered

The brief length of the course does not permit lingering on any topic if the relevant topics are to be covered. A theme of the course, tying together the various elements, will be the forecasting of financial requirements and the use of these forecasts in addressing the financial decisions characteristically required of the non-financial manager. A variety of forecasting approaches will be used with an emphasis on getting quickly to a reasonable answer rather than ultimately to one whose inherent imprecision does not justify the effort.

Basically, the course works its way through the balance sheet. After a review of the use of ratios in financial analysis, the course turns to problems in the financial

management of current assets. The second part of the course deals with asset acquisition, valuation, and mergers. Intermediate and longer-term financing will then be reviewed, including one case from a bank's perspective and one on dividends. The course concludes with several comprehensive cases. Because established smaller companies rely heavily on bank support to provide their external financing, be warned that bank presence looms large in the course. The overall topic outline follows:

- *Technical Review*
 - Ratios as Analytical Tools
 - Forecasting Financial Statements
- *Managing Short-term Operating Financial Needs*
 - Accounts Receivable Financing
 - Inventory Financing
 - Recessionary Challenges
- *Asset Management*
 - Capital Expenditure Analysis
 - Valuation
- *Financing Intermediate and Longer-Term Needs*
 - Assessing Needs
 - Income Effects
 - Risk and Flexibility
 - Timing
 - Dealing with Banks
 - Dividend Decision
- *Comprehensive Financial Decisions*

Text

In an effort to contain the costs of education, the finance faculty members have agreed to make *Principles of Corporate Finance* by Brealey and Myers the Official Text. Because BM is not particularly suited to the topics and approaches we shall be considering in this course, references are provided for *Analysis for Financial Management*, a paperback by Robert C. Higgins (Irwin), but the book is not required for the course. (A new copy of Higgins is quite expensive, so references are included for both the 7th and 9th editions. There have been only minor changes among recent editions, so a used copy of an earlier edition will work well, although the pagination will be slightly different from that provided here.) The references are included because participants in prior years have reported finding Higgins useful. Specialized technical notes are also provided as references. You should find *Analytical Frameworks for Finance* (UVA-F-1107) a useful review at the beginning of the course. The readings are not required but provided as suggestions you may find helpful.

An Analytic Approach

Although a good case is a realistic representation of an actual situation, it is easy to forget that in the real world problems do not come neatly packaged in five pages of text and a handful of exhibits conveniently available in a computer file. To assist in the difficult transition back to reality, the assignments for this course only include questions and suggest assumptions where it is absolutely essential to point the analysis in a specific direction. Likewise, the exhibits for most of the cases are not on line nor are preset templates available. **This is a course in identifying and using the appropriate analytical tools not in finding problems that fit a predetermined solution.** The first step in real-world decisional challenges, after all, is determining just what the problem is, if any. Problem determination is one of the skills the Financial Management course is supposed to enhance. The efficient use of analytical time is another. It is more important to gain experience in setting up a problem properly than to tinker with the assumptions in a preset spreadsheet.

The analysis of financial problems shares a common framework with the analysis of other problems:

- What is the apparent problem?
- Is this the real problem?
- What are the alternatives for resolving the real problem?
- Which of the alternatives is the best (or least worst)?

The specific analysis in addressing these issues for financial problems tends to revolve around the answers to the following questions:

- How much money is needed (or involved) for how long?
- Where is it coming from?
- When is it going to be recovered?
- Are the inflows worth the outflows?

If these eight points are satisfactorily addressed, and the mechanical work supporting the details is reasonably done, there is a high probability that a sound decision will result.



NEATLY PACKAGED PROBLEM



REAL WORLD PROBLEM IDENTIFICATION



ANALYTICAL APPROACH